

Message Text

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SUBJECT: NEGOTIATIONS BETWEEN MOBIL OIL COMPANY AND EPMG

1. RICHARD ARTESANI, GENERAL MANAGER FOR MOBIL OIL EAST AFRICA, LTD., STOPPED BY THE EMBASSY JUNE 3 TO ADVISE THE FOLLOWING IN STRICTEST CONFIDENCE.

A. JOHN BEARDSLEY, AREA EXECUTIVE FOR AFRICA, AND WILLIAM NITZE, A MOBIL LAWYER, BOTH FROM NEW YORK, SPENT 3 1/2 DAYS LAST WEEK NEGOTIATING WITH REPRESENTATIVES OF THE EPMG REGARDING FUTURE STATUS OF MOBIL IN ETHIOPIA. THE NEGOTIATORS ON THE EPMG SIDE INCLUDED ATO PAULO ABRAHAM, CHIEF COMMISSIONER OF PLANNING COMMISSION; ATO HAILU YEMANU, MINISTER OF MINES; DR. ASHAGRE YIGLETU, PERMANENT REPRESENTATIVE, MINISTRY OF COMMERCE AND INDUSTRY; AND ATO KEBEDE AKALEWOLD, GENERAL MANAGER, ETHIOPIAN REFINERY SHARE COMPANY.

B. THE MOBIL REPRESENTATIVES CAME FROM NEW YORK BECAUSE THEY HAD BEEN LED TO BELIEVE BY EPMG REPRESENTATIVES THAT THE EPMG'S POSITION ON NATIONALIZATION OF OIL DISTRIBUTION COMPANIES MIGHT HAVE SOFTENED. THEY DISCOVERED AT THE OUTSET OF NEGOTIATIONS, HOWEVER, THAT THE EPMG POSITION HAD IN FACT NOT CHANGED, I.E.

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THAT AT LEAST 51 PERCENT OF THE COMPANY WOULD HAVE TO BE OWNED

BY THE GOVERNMENT AND NUMEROUS OTHER CONDITIONS WOULD HAVE TO BE MET BY MOBIL. IN SPITE OF THIS DISCOURAGING BEGINNING THE NEGOTIATIONS CONTINUED FOR 3 1/2 DAYS DURING THE COURSE OF WHICH THE EPMG NEGOTIATORS IMPLIED THAT MOBIL MIGHT OBTAIN A GREATER SHARE OF THE ETHIOPIAN MARKET (THE MOBIL NEGOTIATORS DID NOT FOLLOW UP THIS POINT) AND THAT THE EPMG WAS EAGER TO HAVE MOBIL AS ITS PRINCIPAL PARTNER BECAUSE MOBIL HAD BEEN FORTHCOMING IN SUPPLYING CRUDE, IN RUNNING THE AIRPORT, IN TRAINING ETHIOPIAN PERSONNEL, ETC. FURTHER, THE EPMG NEEDED ASSISTANCE IN MANAGING ITS PETROLEUM DISTRIBUTION ACTIVITIES. MOBIL'S MAIN SUBSTANTIVE PROPOSAL, WHICH WAS DEVELOPED BY THE NEGOTIATORS AFTER THE OPENING SESSION HAD REVEALED THAT THE EPMG HAD NOT CHANGED ITS POSITION, WAS A PHASED TAKEOVER BY THE EPMG OVER A THREE-YEAR PERIOD (15 PERCENT FIRST YEAR, 15 PERCENT SECOND YEAR, 25 PERCENT THIRD YEAR) AT WHICH TIME MOBIL WOULD EITHER SELL ALL OF ITS REMAINING SHARES OR CONTINUE ON AS A MINORITY PARTNER, DEPENDING UPON THE EXPERIENCE GAINED DURING THE THREE-YEAR PERIOD. DURING THE THREE-YEAR TRANSITION PERIOD MOBIL WOULD RETAIN A MAJORITY POSITION IN THE OPERATION AND CONSEQUENTLY MANAGEMENT CONTROL. MOBIL ALSO OFFERED TO PROVIDE TECHNICAL ASSISTANCE TO TRAIN ETHIOPIAN STAFF AND TO PARTICIPATE IN THE CONSTRUCTION OF A LUBRICATION BLENDING PLANT (IN WHICH IT WOULD NOT HAVE TO HOLD MAJORITY SHARES). THE EPMG NEGOTIATORS WILL REFER THIS PROPOSAL TO THE DIRG.

C. COMPENSATION WAS ALSO DISCUSSED BUT ONLY IN A GENERAL WAY AS THE EPMG REPRESENTATIVES WERE NOT EMPOWERED TO NEGOTIATE ON THIS MATTER. THEY DID INDICATE, HOWEVER, THAT COMPENSATION WOULD PROBABLY BE BASED ON BOOK VALUE BECAUSE MOBIL HAD BEEN PAYING TAXES ON THAT BASIS, AND THAT THE PAY OUT PERIOD MIGHT BE AS LONG AS 10 YEARS WITH ONLY A NOMINAL (2 OR 3 PERCENT) RATE OF INTEREST. THE MOBIL REPS MADE IT CLEAR THAT SUCH PROPOSALS WOULD BE UNACCEPTABLE TO THEM.

2. COMMENT. MOBIL REPS WERE VERY DISAPPOINTED BY THE LACK OF FLEXIBILITY ON THE PART OF THE EPMG AND FELT THAT THEY HAD BEEN BROUGHT TO THE NEGOTIATING TABLE UNDER FALSE PRETENSES. MOBIL MANAGEMENT IS CLEARLY NOT WILLING TO PURSUE A LINE OF NEGOTIATION (AT LEAST FOR THE PRESENT) WHICH COULD LEAD TO THE ELIMINATION OF THE OTHER OIL DISTRIBUTION COMPANIES IN LIMITED OFFICIAL USE

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ETHIOPIA, WHILE THEY REMAIN ON AS MINORITY PARTNERS, NOR IS IT PREPARED TO PARTICIPATE IN AN ARRANGEMENT WHERE MOBIL WITH THE SUPPORT OF THE EPMG WOULD BE THE DE FACTO MANAGERS OF THE OVERALL OIL DISTRIBUTION SYSTEM EVEN IF AGIP, TOTAL AND SHELL RETAINED A MINORITY POSITION. THE BASIC REASON FOR THIS ATTITUDE IS THE PRECEDENT IT WOULD SET IN AFRICA. MOBIL IS HOPEFUL THAT ITS SUGGESTIONS FOR A PHASED TAKEOVER WILL PROVE ACCEPTABLE TO THE EPMG AS IT WILL BUY TIME FOR THE

COMPANY AND LEAVE THEM IN MANAGEMENT CONTROL DURING THE
TRANSITION PERIOD.
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